PROVINCE OF SASKATCHEWAN

2009

ANNUAL REPORT

MUNICIPAL EMPLOYEES' PENSION PLAN

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This annual report is available in electronic format at **www.peba.gov.sk.ca**

Letters of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2009.

Rod Gantefoer
Minister of Finance

The Honourable Rod Gantefoer
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2009.

Ralph Paquin
Chair

Chair's Comments

On behalf of the Municipal Employees' Pension Commission, I am pleased to present the 2009 Annual Report of the Municipal Employees' Pension Plan.

The mandate of the Commission is to oversee and administer the Plan, and manage the Plan's assets in the best interest of its members and beneficiaries. The objectives, initiatives and activities of the Commission are outlined in the multi-year strategic plan. This annual report provides details of activities completed in 2009 and projects planned for 2010.

Of particular note is the Commission consultation with employers, governing bodies and members about the financial health of the Plan. This consultation process and an actuarial valuation at December 31, 2008 concluded that two contribution rate increases be phased in over a two-year period. The first contribution rate increase was effective January 1, 2010. The second rate increase is set to occur January 1, 2011. These member contribution rate increases are matched by employers. Information about the contribution rate increases was communicated to members and employers.

Surpluses that allowed the Plan to provide pension increases in previous years were not available in 2010. This was due to the decline in world markets. MEPP pensioners were notified there was to be no increase by letter in November.

In 2009, MEPP introduced the *MORe* online retirement planner. The planner is easy-to-use and designed to assist members in preparing for retirement. Members generate scenarios using different retirement options and different retirement dates. The planner is personalized, secure and available online through the Plan website.

The Employer Remittance System was introduced three years ago and is a valuable web-based application that allows employers to remit contribution data electronically to MEPP administration. I encourage all employers to take advantage of this system.

The financial statements in this annual report indicate the Plan has a small surplus. The Commission will continue to assess the financial status of the Plan every year. Continued strong lines of communication will ensure members are informed of the financial position of the Plan and how it is affected as we move forward.

It is my privilege to chair the Municipal Employees' Pension Commission and to present the 2009 Annual Report.

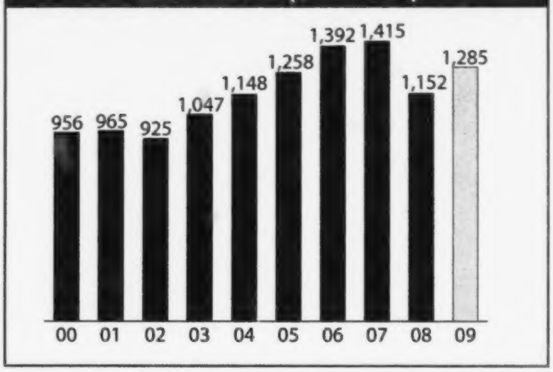
Ralph Paquin

Ralph Paquin, CA
Chair

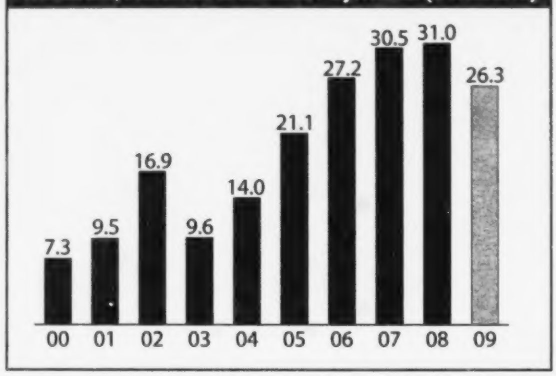
Financial Highlights

Total MEPP Fund Investment Performance										
	Annual Returns (%)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Total Fund Real Return	14.5	(16.2)	4.2	13.6	12.1	11.4	14.9	(2.1)	2.6	10.4
Benchmark	15.5	(17.7)	3.3	12.9	10.6	9.8	14.5	(6.1)	(3.2)	6.0
	Rolling 4-year Average Returns (%)									
Total Fund Real Return	3.2	2.7	10.3	13.0	8.9	6.5	6.2	5.7	8.9	12.7
Benchmark	2.7	1.7	9.3	12.0	6.9	3.4	2.5	2.3	6.4	10.8

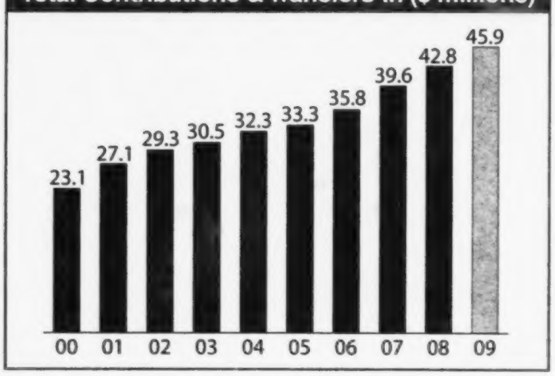
Total Assets ($ millions)



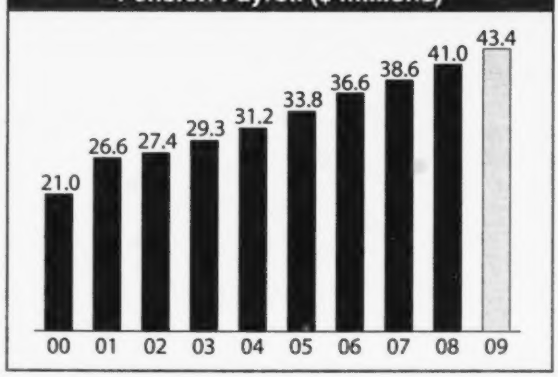
Transfers, Refunds & Benefit Payments ($ millions)



Total Contributions & Transfers-in ($ millions)



Pension Payroll ($ millions)



Comparative Investment and Administration Costs (000s)										
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Administration costs	3,654	3,162	2,822	2,540	2,328	2,051	2,643	2,660	2,068	2,279
Custodial fees	167	210	207	128	131	128	164	95	96	104
Investment fees	4,828	6,112	3,906	3,237	2,708	2,296	2,001	1,996	1,767	1,802
Totals	8,649	9,484	6,935	5,905	5,167	4,475	4,808	4,751	3,931	4,185

Introduction

The Municipal Employees' Pension Plan (MEPP) is a 'defined benefit' plan. Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age or if their age plus eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service. Designated firefighters and police officers may receive an unreduced pension if their age plus eligibility service equal at least 75, they are 55 years of age, or have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age plus eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurer's Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became the current plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and is governed by *The Municipal Employees' Pension Act* and related Regulations, and *The Pension Benefits Act, 1992* and related Regulations.

The Plan holds more than $1.2 billion in total assets. MEPP's membership consists of more than 17,000 members and 4,000 pensioners.

Municipal Employees' Pension Commission

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chair and a Vice-Chair. The Chair and Vice-Chair are elected for a one-year term. At December 31, 2009, the Commission was composed of the members listed in *Table 1.1*.

Municipal Employees' Pension Commission Members at December 31, 2009

Name	Position	Appointing Body
Roland Zimmer	Chair	The Saskatchewan Urban Municipalities Association
Ralph Paquin	Vice-Chair	The Saskatchewan Association of School Business Officials
Bonnie Ozirny	Member	Saskatchewan School Boards Association
Earl Braun	Member	Associations representing Designated Police Officers and Firefighters
Richard Buettner	Member	Saskatchewan School Boards Association
Jim Hallick	Member	The Saskatchewan Association of Rural Municipalities
Allan Johnson	Member	Regional Colleges/Regional Libraries
Betty Moleski	Member	Trade Unions representing employees who are members of the Plan
Orrin Redden	Member	The Urban Municipal Administrators' Association of Saskatchewan
Kevin Ritchie	Member	The Rural Municipal Administrators' Association of Saskatchewan

Table 1.1

The Commission's Mission:

To oversee and direct the administration of the Plan and manage its assets in the best interests of members.

The Commission's Goals:

- **Provide customer-oriented communications and service:**

Plan members, employers, unions, the sponsor and other stakeholders have access to pension services and information which meet their needs.

- **Maintain the financial integrity of the Plan.**

- **Plan Governance:**

The Commission strives to demonstrate leading practices of pension plan governance.

- **Accountability:**

Performance of the Plan and the Commission's service providers is managed, measured and reported.

The Commission's Values:

- **Accountability:**

We are accountable to the members and the stakeholders of MEPP for our administration of the Plan. We operate in a transparent manner.

- **Professionalism:**

We strive for excellence in our administration of MEPP by being diligent and making informed decisions.

- **Integrity:**

As trustees of the Municipal Employees' Pension Fund we hold ourselves to the highest standards of integrity. We strive to act always with honesty and in a manner worthy of the trust our members have placed in us.

- **Fairness:**

We administer MEPP in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.

Municipal Employees' Pension Commission

Education

The Commission has an education program for Commission members. The purpose of the program is to ensure Commission members possess a sound knowledge and understanding of pension-related issues. The Commission budgets $5,000 per year for each Commission member to undertake education.

Seminars, Courses and Other Events Attended by Commission Members in 2009

Commission Member	Education Events Attended	Registration Fees (Total)
Earl Braun	• Canadian Legal and Legislative Update • ATMS [1] Part II • ATMS Part III • Annual Pension Information Session (PEBA)	$3,905
Richard Buettner	• Annual Pension Information Session (PEBA)	$0.00
Jim Hallick	• Greystone Financial Markets Outlook	$0.00
Allan Johnson	• CPBI [2] Presentation • ATMS Part I • ATMS Part II • Fundamentals of Governance • Annual Pension Information Session (PEBA)	$6,213*
Betty Moleski	• Hewitt Investment Basics • Greystone Education Session • Foundations for Trustees I • Annual Pension Information Session (PEBA)	$1,140
Bonnie Ozirny	• ATMS Part II • ATMS Part III • Annual Pension Information Session (PEBA)	$2,725
Ralph Paquin	• ATMS Part I • ATMS Part II • ATMS Part III • ATMS Part IV • Annual Pension Information Session (PEBA)	$4,975
Orrin Redden	• None attended	$0.00
Kevin Ritchie	• Annual Pension Information Session (PEBA)	$0.00
Roland Zimmer	• CPBI Spring Seminar • Canadian Legal and Legislative Update • ATMS Part I • ATMS Part II • Annual Pension Information Session (PEBA)	$3,478

[1] Advanced Trustee Management Standards
[2] Canadian Pension and Benefits Institute
* The Commission approved Mr. Johnson exceeding his $5,000 budget.

Table 1.2

Municipal Employees' Pension Commission

Attendance

The Commission met nine times in 2009. *Table 1.3* shows the number of meetings each Commission member attended.

Name	Number of Meetings Attended
Earl Braun	9
Richard Buettner	8
Jim Hallick	4
Allan Johnson	9
Betty Moleski	8
Bonnie Ozirny	8
Ralph Paquin	8
Orrin Redden	7
Kevin Ritchie	8
Roland Zimmer	9

Table 1.3

Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

-
- Provides pension estimates, estimates on breakdowns of spousal relationships and transfer values for members wishing to transfer into MEPP from other pension plans;
- Provides ongoing communications to members
- and employers through newsletters, bulletins,
- workshops and online services;
- Prepares annual member statements by the end of March of each year;
- Calculates termination, pension and death benefits;
- Prepares information to members regarding significant life events that affect Plan membership, such as termination, death and the breakdown of spousal relationships;
- Accounts for all investment transactions;
- Collects members' and employers' contributions; and
- Provides executive management services to the Commission.

As well, PEBA provides investment-related services to the Commission. Some of these services include:

- Monitoring of investment performance;
- Communications with external investment managers and investment consultants;
- Research;
- Compliance monitoring; and
- Fund rebalancing.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act, The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Dexia Investor Services Trust as the Plan custodian and Hewitt Associates as the investment consultant. The Commission also retains the eight investment managers listed in *Table 1.6* on page 21 of this report.

Strategic Initiatives

In June 2009, the Commission approved a new three-year strategic business plan for the period 2009 to 2011.

The strategic business plan sets out goals for the planning period in four major categories:

1. **Service Delivery, Design and Communications**

   Plan members, employers, unions, the sponsor and other stakeholders have access to pension services and information which meet their needs.
2. **Maintain the financial integrity of the Plan**
3. **Plan Governance**

   The Commission strives to demonstrate leading practices of pension plan governance.
4. **Accountability**

   Performance of the Plan and the Commission's service providers is measured, managed and reported.

The strategic business plan was developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It was developed within the context of the Plan's purpose, mission and goals and the Commission's values of accountability, professionalism, integrity and fairness. The new strategic business plan considers a number of internal and external factors.

This annual report will provide reporting for the strategic initiatives completed in 2009, other activities accomplished in 2009, and activities planned for implementation/completion in 2010 under the updated strategic plan.

1. Service Delivery, Design and Communications

The Commission objectives:

- Support member understanding of the Plan, including individual member benefits and responsibilities.
- Provide relevant, timely and accurate information which is easy to understand.
- Support participating employers.
- Maintain an up-to-date suite of services that meet evolving member needs.

The Commission has made considerable progress with respect to this goal, including:

- Implementing a stakeholder consultation process.
- Providing members and employers with access to a Retirement Information Consultant and a Customer Focus Coordinator to improve our service delivery.
- Providing additional online forms for employers and members.
- Delivering retirement information sessions.
- Developing and implementing increased information for employers, including employer bulletins and updates to the employer administration guide.

Strategic Initiatives

Service Delivery, Design and Communications Activities

Strategic initiatives completed in 2009

- **Research, develop and implement targeted communication strategies based on the communication needs of different groups of Plan members.**
  - Targeted communication strategies based on the needs of different groups of members is now a core process. The website has been divided into lifecycles and activities will build on that. Materials for each of the lifecycles will be identified and developed.
- **Develop and implement regular employer bulletins.**
  - A communications strategy was developed that includes the timing, process, design and method of delivering of the employer bulletins. A fall 2009 edition of the employer bulletin was delivered at the end of August 2009. Quarterly distributions of the employer bulletin will be sent via e-mail.
- **Develop and implement a client contact plan for employers.**
  - A client contact plan, based on employer feedback, has been developed which includes the service delivery model, categorization of client groups and the types of client meetings.

Other communication and service accomplishments for 2009

- The MEPP Online Retirement Calculator, *MORe*, launched on June 1, 2009. As of December 31, 2009, approximately 1,490 individual members had accessed *MORe*. In addition, there were 700 return visits to use the online planner.
- MEPP *Matters*, a semi-annual member newsletter, was distributed in the spring and fall of 2009. Topics included the financial markets, *MORe*, the retirement planning workshops (Retire*With*Ease), contribution rates, the 2008 Actuarial Valuation, privacy and the Commission.
- The MEPP Member Booklets (General Member and Designated Member) were combined and refreshed. The new booklets were distributed to Plan members in November 2009. A version is posted on the Plan's website.
- At December 31, 2009, 33 Retire*With*Ease retirement planning workshops had been held at various locations throughout Saskatchewan. In total, approximately 385 MEPP members were in attendance at these sessions.
- As at December 31, 2009, four plan overview presentations had been held at various locations throughout the province, with a total of 85 members in attendance. Locations included Prince Albert, Yorkton and Moose Jaw.
- The 2008 MEPP Member Statement was mailed to members in March 2009.
- The purpose of the Employer Remittance System is to offer a web-based application for employers to remit contribution data electronically to MEPP administration. At December 31, 2009, 125 employers, out of 721 participating employers, were set up and 109 had used the system. In December 2009, 50 per cent of the pension contributions to the Plan were made using the Employer Remittance System.
- At December 31, 2009, PEBA held 10 employer meetings, two presentations to employers and attended three trade shows throughout 2009. These sessions reached approximately 500 participating employers.

Strategic Initiatives

Strategic initiatives planned for implementation and/or completion in 2010

- **Develop and implement communication tools that communicate the value of the Plan.**
  - In 2009, a communications strategy was developed that outlines key messages, goals and objectives, and opportunities for use of value messaging. Existing and new materials will convey the message of the value of the Plan to stakeholders.
- **Undertake a membership survey.**
  - Feedback from the membership about current MEPP communications, service delivery and plan provisions will be sought in late 2010 through to early 2011.
- **Assess the feasibility of using electronic media in order to enhance efficiency in providing information to members.**
  - In 2009, an assessment began in regard to the use of electronic media versus print media. The results of this assessment may lead to the increased use of electronic media.

2. Maintain the Financial Integrity of the Plan

The Commission objectives:

- Maintain Plan funding that will be able to pay promised benefits in full as they come due while keeping contribution rates stable over the long term.
- Ensure Plan design includes benefits that meet the needs of all stakeholders.
- Identify, assess and manage the Plan's financial risks.

The Commission has made considerable progress with respect to this goal, including:

- Development of a formal funding policy.
- Addition of infrastructure as an asset class.

Financial Integrity Activities

Strategic initiatives completed in 2009

- **Link objectives of the funding and investment policies and develop a plan for managing identified risks.**
  - A study was undertaken regarding the linking of the funding and investment policies. The study included recommendations regarding the funding and investment policies as well as strategies to manage any identified risks. The Commission will discuss the results and implement any approved recommendations for the funding and investment policies.

Other financial integrity accomplishments for 2009

- The Commission conducted an actuarial valuation of the Plan as of December 31, 2008. As of the valuation date, the Plan shows a going-concern surplus of $121.8 million and a solvency deficit of $55.6 million. The Commission monitors the ongoing solvency of the Plan by conducting annual actuarial valuations.

  The Commission has taken action based on the December 31, 2008 valuation results.

  MEPP pensioners have been notified that they will not receive a pension increase in 2010. MEPP members and employers were notified that to maintain the long-term health of the Plan there will be contribution rate increases in 2010 and 2011. This will ensure contributing members and employers are paying the costs of the pensions they are earning.

- The Commission's Investment Consultant provided quarterly reports on Performance Review and Investment Manager Evaluation. Fund managers provided the Commission with reports on their respective funds on a monthly or quarterly basis.
- The Commission reviewed and approved its Statement of Investment Policy and Procedures (SIP&P) at its June 2009 meeting.
- The Commission approved its operating budget.
- The Commission reviewed an inter-provincial comparison of pension administration costs for the December 31, 2008 year-end.

Strategic Initiatives

Strategic initiatives planned for implementation and/or completion in 2010
• **Assess Plan provisions and funding implications based on member feedback, funding policy and investment policy study and the results of the solvency valuation.** - No activity is planned for this initiative in 2010.

Strategic Initiatives

3. Governance

The Commission objectives:

- The Commission demonstrates that it is a responsible fiduciary.
- Ensure the Plan's business model, including roles and responsibilities of both the Commission and the contracted service providers, is consistent with the Plan's strategy and operations.

The Commission has made considerable progress with respect to this goal, including:

- The creation of a Governance Manual.
- Enhancement of Commission education and orientation programs.
- The establishment of service standards with the Plan's administrator.

Governance Activities

Strategic initiatives completed in 2009

- **Review Commission practices, areas of focus, and roles and responsibilities. Complement Commission self-assessments with a review of leading practices.**
  - A governance audit began in late 2009. The results of this audit will be reported to the Commission in early 2010.
  - A benchmarking study, which includes a review of leading practices, began late 2009. The result of this study will be reported to the Commission early 2010.
- **Assess roles and responsibilities of contracted service providers to ensure that they are consistent with the Plan's strategy and operations.**
  - The Commission reviewed and amended its Governance Manual to include rules and procedures for acting on information received.

Other governance accomplishments for 2009

- Each Commission member reviewed and signed the Commission's Code of Conduct and Conflict of Interest Procedures at its September 2009 meeting.
- The Commission amended its Governance Manual to include the Duty of Care, Duty of Due Diligence and Duty of Loyalty as responsibilities of individual Commission members.
- Commission members continue to participate in the Commission's established education program.
- The Commission's 2009 Governance Self-Assessment Questionnaire was completed. It is available on the Plan's website.
- The performance of the Commission's actuary, custodian and investment consultant was evaluated. All received satisfactory evaluations.
- The Commission received quarterly administration reports from PEBA. These included service standard performance reporting.

Strategic Initiatives

- The Commission received confirmation that its service providers maintain a Business Continuance Plan and abide by a Conflict of Interest policy.

Strategic initiatives planned for implementation and/or completion in 2010
• **Assess roles and responsibilities of contracted service providers to ensure that they are consistent with the Plan's strategy and operations.** - Further study will be undertaken as a result of the governance audit and benchmarking study.

4. Accountability

The Commission objectives:

- Understand stakeholder and member information requirements and provide them with information regarding the Plan's strategy, operations and values.
- Provide relevant and timely reporting on the performance of the Plan, the Commission and service providers.

The Commission has made considerable progress with respect to this goal, including:

- Annual self-assessments completed by the Commission.
- The development and implementation of a strategic plan.

Accountability Activities

Other accountability accomplishments for 2009

- The Commission developed and approved its Strategic Business Plan for the period 2009 – 2011 at its June 2009 meeting. The Commission receives regular updates in regard to the progress toward implementation and completion of the strategic initiatives.
- The Annual Report for the year ended December 31, 2008 was tabled on April 27, 2009 and is available to all stakeholders on the Plan's website. The Annual Report includes commentary regarding strategic initiatives, accomplishments and plans.
- The Governance Self-Assessment Questionnaire for 2009 is available on the Plan's website for all stakeholders to access.
- The Commission reviewed and approved its 2009 Risk Management Plan. The results of the 2009 Risk Management Review are shown on page 18 of this report.

Strategic initiatives planned for implementation and/or completion in 2010

- **Enhance performance reporting for the Plan, the Commission and service providers.**
  - The development of enhanced reporting measures is expected to begin mid to late 2010. This initiative will be implemented through 2011 and into 2012.

Risk Management

The Commission is responsible for managing risks that could affect the operation of the pension plan and the Plan's members and other stakeholders. Through its strategic planning and risk management process, the Commission identifies and evaluates such risks, and ensures appropriate strategies are in place to manage risk.

Annually, the Commission conducts a risk assessment review that:

- Reviews the risk management performance for the previous year and the progress made with respect to annual goals;
- Identifies and assesses the impact and probability of key plan risks; and
- Establishes the risk management strategies for the current year and identifies any specific goals for the year.

The outcomes of this review will be included as necessary in revisions to the Commission's risk management processes.

The Commission has identified the following potential risks that could adversely affect the operation of the Plan:

- Insufficient assets to meet benefit obligations due to poor investment returns, inadequate levels of ongoing funding or inaccurate actuarial cost estimates, instability of contribution requirements or excessive expenses and costs.
- Inadequate performance of service providers, service provider errors and omissions, and service provider failures.
- Non-compliance with legislative and common-law requirements and failure to meet fiduciary obligations.
- Failure to meet the needs of Plan members and participating employers.
- Parties not staying within their communications role and untimely or inaccurate communications to Plan members or employers.

The Commission has developed and implemented these strategies to manage these risks:

- The Commission implemented a SIP&P that outlines the Commission's investment beliefs and provides risk management through diversification of asset classes, capital markets and investment managers.
- The Commission ensures initiatives and Plan-related activities are adequately funded through its budgeting process.
- The Commission receives a report comparing the administrative costs for public sector pension plans.
- The Commission conducts an annual actuarial review of the Plan's funded status and contribution requirements. There are processes in place to ensure that the data sent to the actuary is accurate and the actuary's gain/loss analysis is reasonable.
- The Commission has a Funding Policy in place which enables the Commission to be proactive in managing the financial status of the Plan and helps facilitate communication with stakeholders on the status of the Plan. The Funding Policy also addresses the timing of actuarial valuations.
- There are two levels of audit:
  - The Commission retains a third party auditor to audit the Plan.
  - The Provincial Auditor reports to the Public Accounts Committee regarding the audit of the Plan.
- The Commission communicates the current service cost versus the actual contributions to Plan members and stakeholders after each actuarial valuation.

Risk Management

- The Commission's Acquisition of Services Policy details how the Commission is to retain service providers.
- The Commission reviews the performance standards for the Commission's administrator, investment consultant, investment managers and custodian on a quarterly basis.
- The Commission requests that all other service providers verify that they have a Business Continuance Plan.
- The Commission's administrator annually reviews and reports compliance with legislative requirements.
- The periodic checklist is a list of major items identified by the Commission that are necessary for the administration of a pension plan. The checklist is the verification that an activity has been carried out. The completed periodic checklist is provided to the Commission on a semi-annual basis.
- Commission members are required to review and sign the Commission's Code of Conduct and Conflict of Interest procedures on an annual basis.
- The Commission has outlined the education requirements of Commission members and has provided a budget for each Commission member for training.
- The Commission formally reviews its Strategic Business Plan on a periodic basis.
- The Commission regularly consults with legal counsel and outside advisors regarding issues on which it is deliberating.
- The Commission has a Communications and Stakeholder Relations Policy that specifies the process for external communications.
- Information tools include member and employer seminars, employer bulletins and guides, website information and written materials.
- The Commission consults with Plan members, participating employers and other stakeholders regarding Plan design.
- The Commission has a process in place to hear member complaints regarding application of *The Municipal Employees' Pension Act*.

Risk Management Review 2009

- On March 20, 2009, the Commission's auditor and the Provincial Auditor reviewed the actuarial valuation as part of the 2008 financial statement audit.
- The Commission received its Report to Management on Internal Controls at its March 20, 2009 meeting. The auditor report stated the Commission's control was effective in all material respects, except that PEBA's Business Continuance and Disaster Recovery Plan was not yet complete; the Commission had complied in all significant respects with legislative and related authorities, and there were no findings regarding other matters.
- The Commission approved its Strategic Business Plan in June 2009. The Commission receives regular implementation updates for the initiatives found within the Strategic Business Plan.
- In June 2009, the Commission reviewed and revised its investment policy.
- At its June 2009 meeting, the Commission received the Service Provider Risk Management Review. The Commission noted that all of its service providers maintain a Business Continuance Plan and abide by Code of Conduct and Conflict of Interest policies.

Risk Management

- In September 2009, the Commission reviewed PEBA's Service Standard Audit for 2008. The Commission noted that for the 2008 year, PEBA exceeded all service standard targets except for portability transfer value transactions.

- The Commission acquired the services of a consultant to undertake a study to link the Funding and Investment Policies. The consultant presented the results of the study to the Commission in November 2009. The Commission will discuss the results and implement any approved recommendations for the funding and investment policies.

- On December 10, 2009, PEBA's Business Continuance and Disaster Recovery Plan was submitted to the Commission's Executive Secretary.

- The Commission consulted stakeholders in late 2008 about the financial health of the Plan. The Commission recommended that the increases be phased-in over a two-year period, with the first contribution rate increase to be effective January 1, 2010 and the second to be effective January 1, 2011.

  The Municipal Employees' Pension Plan Regulations were amended to reflect the 2010 contribution rate increase. It was recommended that the Regulations be amended again in 2010 to reflect the 2011 contribution rate increase. This was communicated to members and employers.

- PEBA provided the Commission with the final Periodic Checklist for 2008 and the interim Periodic Checklist for the first six months of 2009.

- Regular evaluations were completed for the Commission's service providers, including the Commission's investment consultant, actuary, custodian and auditor.

- The Commission received service performance reporting and investment performance and compliance reporting at its February, May, September and November, 2009 meetings.

- The Commission received quarterly updates on its budget for the periods ending March, June, September and December 2009.

- An Inter-Provincial Comparison of Pension Administration Costs was provided to the Commission at its January 16, 2009 and November 26, 2009 meetings.

- The spring 2009 issue of MEPP *Matters* included an article about the contribution increase and an article on the financial markets. The fall 2009 MEPP *Matters* provided information on current service costs and actual contributions based on the actuarial valuation for the period ending December 31, 2008. Both newsletters were distributed to members via mail and are available on the Plan's website.

- Workshops were facilitated by PEBA staff throughout Saskatchewan. These included employer presentations, Retire*With*Ease workshops and plan overview presentations.

- At its February, May, September and November meetings, the Commission received updates in regard to the Notice of Motion filed in the Court of Queen's Bench by the Canadian Union of Public Employees.

Risk Management Plan 2010

- The Commission has approved its Risk Management Plan for 2010. In addition to the risks identified in the introduction of this section, the Commission has further identified the risk of an inappropriate governance structure and the risk of fraudulent activities. Several risk management strategies have been identified to manage these risks.

Investments

Trustees

As trustees of the Fund, the Commission is responsible for prudently investing the Fund's monies.

Investment Policy

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Prodcedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy;
- Rate of return benchmarks for each investment manager and for the Fund;
- Permitted and prohibited investments;
- Monitoring and control responsibilities;
- Selecting and terminating investment managers;
- Compliance reporting requirements; and
- Conflict of interest guidelines.

Investment Managers

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.5.* Investment managers were paid a total of $4,712,000 in 2009.

Investment Consultant

The Plan's investment consultant is Hewitt Associates. The investment consultant monitors the performance of the investment managers and reports the results to the Commission. The Commission paid Hewitt $116,000 in 2009.

As of December 31, 2009 the investment managers invested the portions of the portfolio shown in *Figure 1.1.*

Custodian

The Commission retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Accounting for investment transactions.

RBC Dexia received $167,000 in fees in 2009.

Fees Paid for Investment Services in 2009

Investment Managers (total)	$4,712,000
Investment Consultant	116,000
Custodian	167,000
Total	$4,995,000

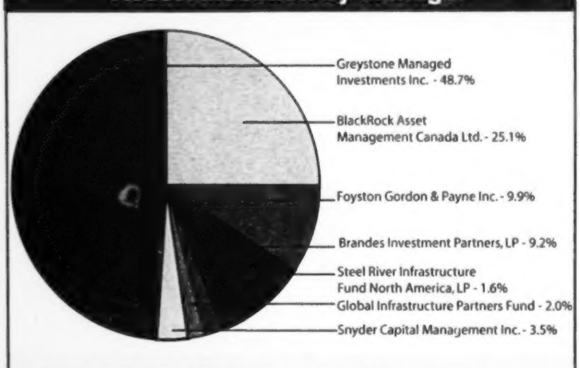
Table 1.5

Figure 1.1 shows the portion of the Fund's assets managed by the investment managers.

Investment manager mandates are shown in *Table 1.6.*

Table 1.5 shows the total fees paid for investment services in 2009.

Asset Allocation by Manager



* At December 31, 2009, Pareto Investment Management Ltd., the Plan's currency manager, held 0.06% of total Plan assets.

Figure 1.1

Investments

Investment Manager Mandates	
Investment Manager	**Mandate**
Steel River Infrastructure Fund North America, LP	Infrastructure
BlackRock Asset Management Canada Ltd.*	U.S. Equities, Canadian Bonds
Brandes Investment Partners, LP	Non-North American Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
Global Infrastructure Partners Fund	Infrastructure
Greystone Managed Investments Inc.	Balanced, Real Estate
Pareto Investment Management Ltd.	Currency
Snyder Capital Management, LP	U.S. Equities

* Formerly Barclays Global Investors Canada Ltd.

Table 1.6

Table 1.6 shows the mandates of the various investment managers.

Figure 1.2 shows the actual asset mix by asset class.

Investment Objectives

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 4.5 per cent above inflation, as measured by the Consumer Price Index (CPI). The CPI is a measure of the average change over time in the prices of consumer goods and services. The Commission monitors and assesses this goal over the long term (10 years or more).

To achieve its goal, the Commission has established:

- A long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and,
- An investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates.

The Fund's main objective is to exceed the return of the benchmark portfolio, net of investment management fees, over a rolling four-year period.

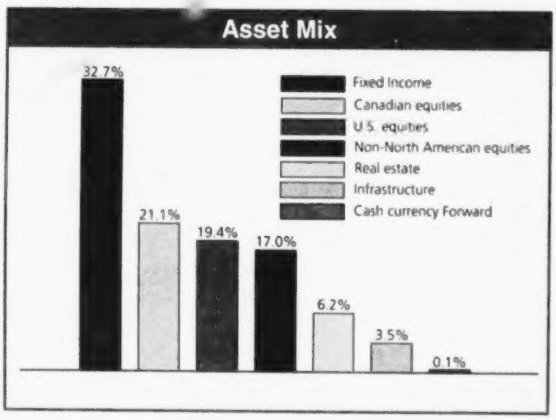


Figure 1.2

The Fund structure includes a balanced fund manager and a number of managers that specialize in various asset classes. The primary objective for the balanced fund manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class within the balanced fund.

The returns of specialty managers are monitored for performance against the relevant asset class benchmarks. Active managers are tasked with exceeding a benchmark, while passive managers are engaged to match a benchmark.

Investments

Plan Benchmarks by Asset Class				
Asset Class	**Class Market Index**	**Minimum Investment (%)**	**Benchmark* Portfolio (%)**	**Maximum Investment (%)**
Canadian Equities	S&P/TSX CPMS Cap 10	15 (14)	**20 (19)**	30 (28)
US Large Cap Equities	S&P 500 and S&P 500 Hedged	10	**14**	18
US Small/Mid Cap Equities	Russell 2500	2	**4**	6
Non-North American Equities	MSCI EAFE	14	**18**	22
Canadian Bonds	DEX Universe Bond Index	22 (20)	**34 (33)**	54 (52)
Infrastructure	Consumer Price Index plus 2%	-	**3 (5)**	8
Real Estate	Investment Property Databank	3	**5**	8
Short-term Investments	91 Day T-Bills	0	**2**	20
See Appendix 'A' for descriptions of market indices.			**100**	

** Existing guidelines were effective July 1, 2006. New guidelines (shown in brackets), to reflect a 5% allocation to infrastructure, are expected to be phased in over a two to three-year time period commencing in late 2007.*

Table 1.7

Fund Performance

Fund Investment Performance

The Commission reviews the performance of the Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund's investment performance as at December 31, 2009 is summarized in *Figure 1.3.* The Fund had a return of 14.5% for the year ended December 31, 2009, underperforming the benchmark by 1.0 percentage points. Over the past four years, the Fund had an annualized return of 3.2%, exceeding the benchmark by 0.5 percentage points.

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark. *Table 1.8* shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

During 2009, the real estate mandate was transitioned out of the balanced mandate.

The balanced mandate provided a return of 12.9% in the year ended December 31, 2009, underperforming the benchmark by 0.1 percentage points. Over four years, the balanced mandate provided an annualized return of 4.4%, outperforming the benchmark by 0.6 percentage points. (*Figure 1.4*)

MEPP Plan Performance

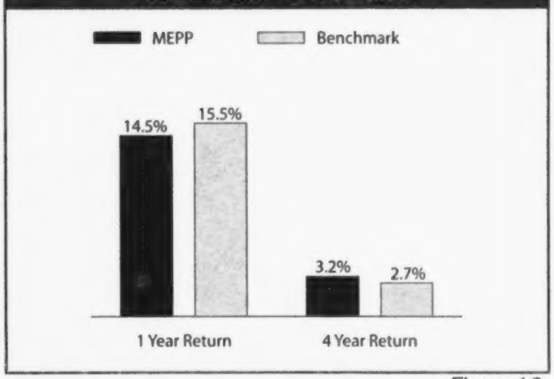


Figure 1.3

Balanced Mandate Performance

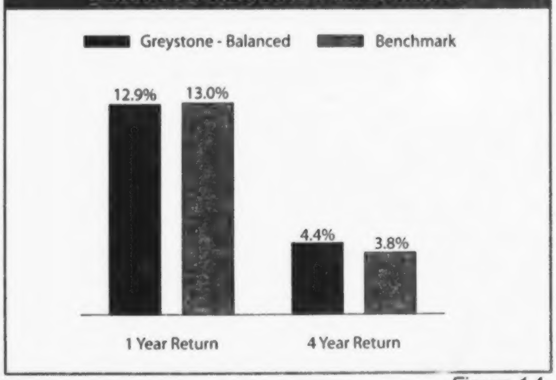


Figure 1.4

Investments

Balanced Mandate Benchmarks by Asset Class				
Asset Class	**Class Market Index**	**Minimum Investment**	**Benchmark Portfolio**	**Maximum Investment**
Canadian Equities	S&P/TSX CPMS Cap 10	18.0%	**24.0%**	30.0%
US Large Cap Equities	S&P 500 & S&P 500 Hedged	6.0%	**9.0%**	12.0%
Non-North American Equities	MSCI EAFE	14.0%	**18.0%**	22.0%
Canadian Bonds	DEX Universe Bond Index	25.0%	**45.0%**	65.0%
Short-term Investments	91 Day T-Bills	0.0%	**4.0%**	35.0%
Mortgages		0.0%	**0.0%**	8.0%
			100.0%	

Table 1.8

Canadian Equity Managers

The Plan's Canadian equity managers are Greystone and Foyston, Gordon & Payne Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10. (*Figure 1.5*) Their complementary management styles help ensure diversification of the Fund's investments.

In the year ended December 31, 2009, Greystone's Canadian equity component returned 28.0%, underperforming the benchmark by 7.1 percentage points. Over four years, Greystone underperformed the benchmark by 0.9 percentage points, achieving an annualized return of 3.0%.

In 2009, Foyston returned 38.1%, outperforming the benchmark by 3.0 percentage points. Foyston's four-year annualized return of 3.1% is 0.8% below the benchmark.

US Equity Managers

The Plan's US equity managers include Greystone, BlackRock Asset Management Canada Limited (BlackRock) and Snyder Capital Management, LP (Snyder).

Greystone is an active manager measured against the benchmark S&P 500. Managing US large cap equities, Greystone realized a positive return of 2.7% in the year ended December 31, 2009, underperforming the benchmark by 4.7 percentage points. Greystone's four-year annualized return of -3.4% underperformed the benchmark by 0.1 percentage points. (*Figure 1.6*).

Canadian Equity Performance

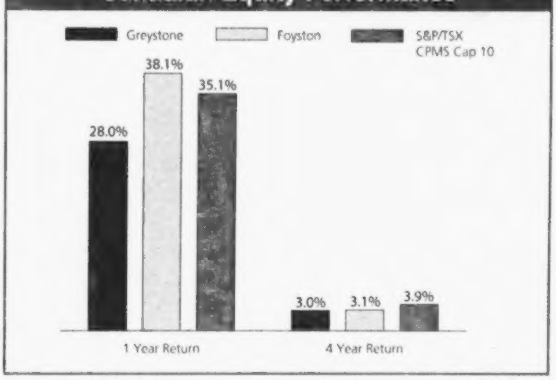


Figure 1.5

US Large Cap Performance

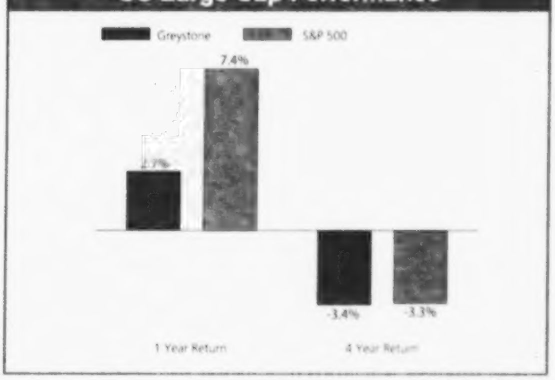


Figure 1.6

Investments

BlackRock manages passive, hedged U.S. equity investments and is measured against the hedged S&P 500 Index. BlackRock had positive tracking experience of 0.7%, returning 24.8% for the year ended December 31, 2009. Over four years, BlackRock had positive tracking experience of 0.1% compared to the hedged &P 500 Index. *(Figure 1.7)*

US Large Cap Equity (Hedged) Performance

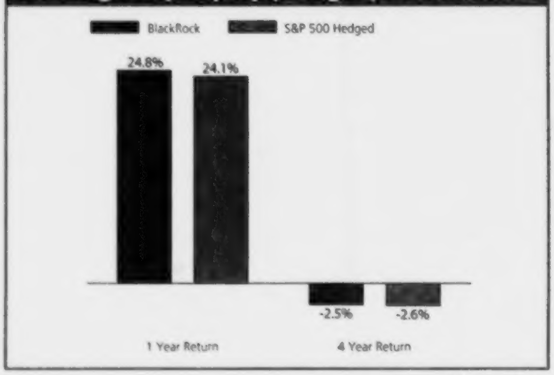


Figure 1.7

Snyder actively manages the small and mid-cap US equity portfolio.

Snyder provided a return of 11.3% for the year ended December 31, 2009. This return underperformed the Russell 2500 index by 2.8 percentage points. Over four years, Snyder outperformed the benchmark by 1.4 percentage points. (*Figure 1.8)*

US Small & Mid Cap Equity Performance

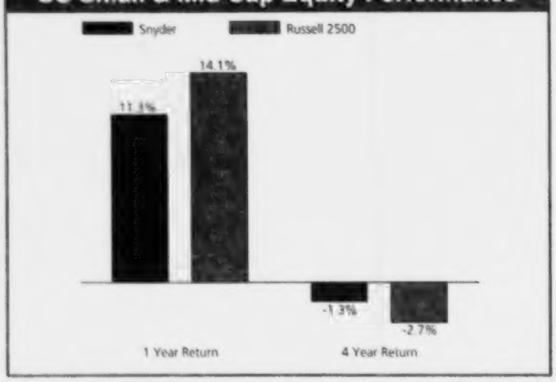


Figure 1.8

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone and Brandes employ different management styles that complement one another, helping ensure diversification of the Fund's investments.

Greystone returned 20.6% in the year ended December 31, 2009, which outperformed the benchmark by 8.7 percentage points. Over four years Greystone provided a -0.3% return, outperforming the benchmark by 1.2%.

Brandes provided a 5.8% return for the year ended December 31, 2009, underperforming the benchmark by 6.1 percentage points. The four-year annualized return of 0.1% was 1.6 percentage points higher than the benchmark. *(Figure 1.9)*

Non-North American Equities

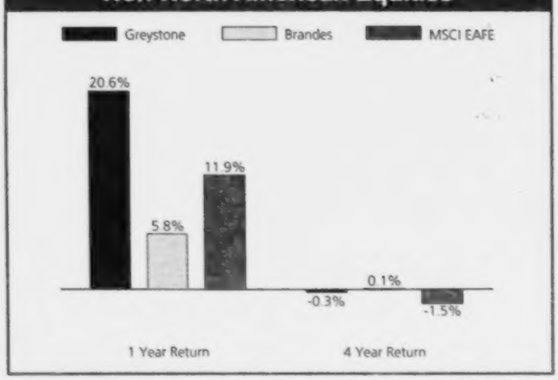


Figure 1.9

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of -5.0% for the year ended December 31, 2009. This return underperformed the estimated Investment Property Databank benchmark by 5.8 percentage points. Greystone's four-year annualized return was 11.0%, which is 1.5 percentage points above the estimated benchmark return for the same period. (*Figure 1.10*)

Investments

During 2009, a transition from segregated real estate holdings to pooled fund holdings was undertaken. This transition will be completed in 2010.

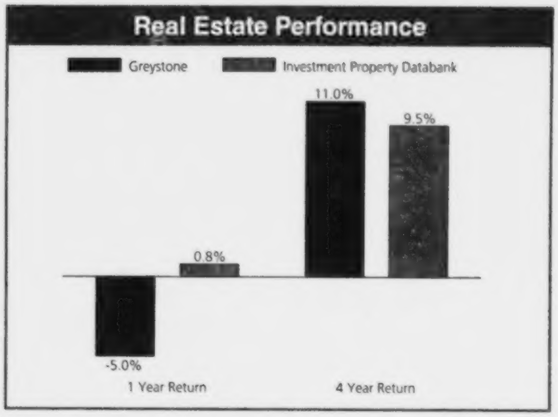


Figure 1.10

Bond Managers

The Plan's bond managers, Greystone and BlackRock, are compared with the DEX Universe Bond Index, as shown in *Figure 1.11*.

For the year ended December 31, 2009, Greystone outperformed this benchmark by 3.1 percentage points, providing a return of 8.5%. Greystone's four-year annualized return of 5.3% was 0.4 percentage points above the benchmark.

BlackRock, the Plan's passive bond manager, had a positive return of 5.5% for the year ended December 31, 2009. This represents positive tracking of 0.1 percentage points compared to the benchmark. BlackRock's four-year annualized return of 4.8% represents negative tracking of 0.1 percentage points when compared to the benchmark.

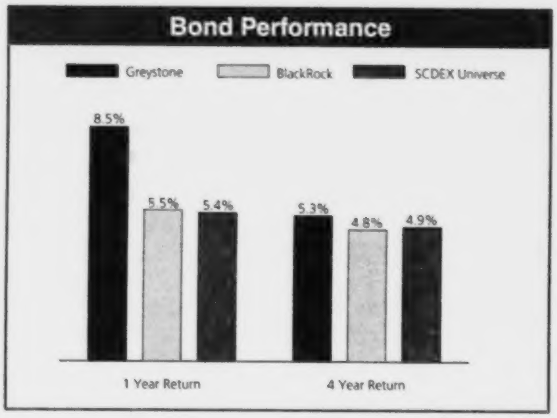


Figure 1.11

Currency Manager

Pareto is the Plan's currency manager. Their mandate is to actively manage currency risk to reduce the impacts of foreign currency exposures on the Plan. They also add value to the Plan by trading major currencies for financial gain. Pareto's performance is benchmarked against a passive 50% currency hedge.

For the year ended December 31, 2009, Pareto returned -7.2%, underperforming the benchmark by 1.2 percentage points.

Because Pareto was new to the Plan in 2006, four-year performance figures are not available.

Infrastructure Managers

The Plan is invested in two infrastructure funds; the Steel River Infrastructure Fund North America and the Global Infrastructure Partners Fund. The performance of both funds is compared to an absolute benchmark of 100% of the Canadian Consumer Price Index plus 2%. Both funds are currently in the initial investing phase which can take several years to complete. Consequently, a return for 2009 is unavailable. At December 31, 2009, the Plan had contributed approximately 62% of its capital commitment.

Plan Expenditures and Statistics

Pension Payments

In 2009, MEPP made monthly pension payments to 4,205 pensioners, paying approximately $43.4 million.

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2009.

The number of member retirements in 2009 is shown in *Table 1.10*.

Retirement Comparisons	2009	2008
Normal Retirement	49	46
Early Retirement	110	117
Postponed Retirement	2	4
Temporary Pension	12	13
Total	173	180

Table 1.10

Plan Membership

Plan membership increased in 2009 in all member categories, as is shown in *Table 1.11*.

Plan Membership Comparisons	2009	2008
Active	13,304	12,721
Inactive	4,191	4,169
Pensioners	4,205	4,107

Table 1.11

Income Allocation

In 2009, the Commission allocated interest to members' accounts at the rate of 10.09% for the year.

Supplemental Increases for Pensioners

Effective January 2009, indexing of 2% was applied to defined benefit pensions earned on service prior to 1999.

Operating Expenditures

Table 1.12 shows plan operating expenditures for the year ended December 31, 2009.

Administration Expenses (000s)	Total Cost	(%)
Administration costs	$3,654	42.2
Custodial fees	167	2.0
Investment consultant fees	116	1.3
Investment management fees		
Global Infrastructure Partners Fund – C, LP	927	11.0
Greystone Managed Investments Inc.	956	11.0
Foyston, Gordon & Payne Inc.	552	6.3
Brandes Investment Partners, LP	701	8.1
BlackRock Asset Management Canada Ltd.	105	1.2
Snyder Capital Management, LP	384	4.4
Pareto Investment Management Ltd.	343	3.9
Steel River Infrastructure Fund North America, LP	744	8.6
	$8,649	100

Table 1.12

Plan Expenditures and Statistics

Active Employers

At December 31, 2009, there were 721 employers participating in the Plan.

The distribution of employers by employment sector is shown in *Table 1.13* and *Figure 1.12*.

MEPP Active Employers	Number	(%)
Cities	10	1.4
Other	16	2.2
Regional Colleges & Libraries	15	2.1
Rural Municipalities	296	41.0
School Divisions & Boards	26	3.6
Towns & Villages	358	49.7
Total Participants	721	100.0

Table 1.13

Active Members by Employer

The distribution of the Plan's active members by employer is shown in *Table 1.14* and *Figure 1.13*.

MEPP Active Members by Employer	Number	(%)
Cities	1,280	9.5
Other	93	0.7
Regional Colleges & Libraries	878	6.5
Rural Municipalities	1,242	9.2
School Divisions & Boards	8,454	62.9
Towns & Villages	1,496	11.2
Total Participants	13,443	100.0

The number of total participants in this table differs from the total active members in Table 1.10 because some members work for more than one employer.

Table 1.14

MEPP Active Employers

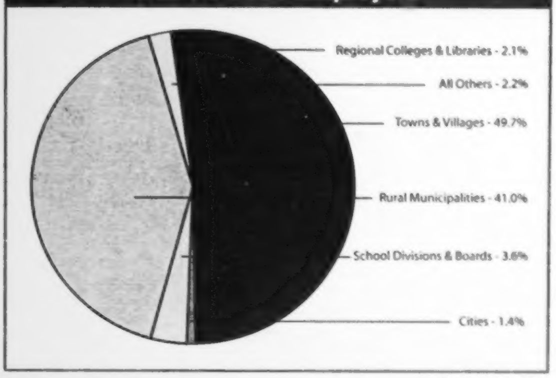


Figure 1.12

MEPP Active Members by Employer

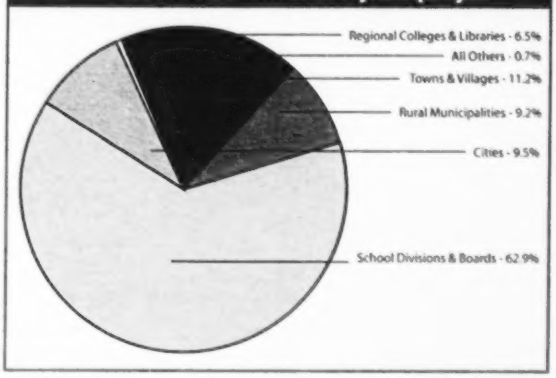


Figure 1.13

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by Deloitte & Touche LLP whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Kathy Deck, CGA
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
February 19, 2010

Actuaries' Opinion

Eckler Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the provision for annuity benefits and accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2008. Eckler Ltd. was further retained to extrapolate the results of this valuation to December 31, 2009.

The valuation and extrapolation were based on:

- Membership data provided by the Commission as at December 31, 2008;
- Asset data, provided by the Commission as at December 31, 2009;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice in Canada.

Doug Poapst

A. Douglas Poapst, FSA, FCIA
Eckler Ltd.

February 19, 2010

Municipal Employees' Pension Commission
Municipal Employees' Pension Plan

Financial Statements

Year Ended December 31, 2009

Auditors' Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2009 and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 2009 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

February 19, 2010

Municipal Employees' Pension Plan

Statement 1

Statement of Net Assets Available for Benefits, Accrued Pension Benefits and Surplus

As at December 31

(in thousands)

	2009			2008
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	$ 17,527	$ 353	$17,880	$11,607
Bonds	225,862	4,557	230,419	222,222
Equities	358,805	7,239	366,044	305,602
Infrastructure	45,889	926	46,815	30,636
Pooled funds	507,003	10,230	517,233	484,747
Real estate	77,340	1,560	78,900	86,225
	1,232,426	24,865	1,257,291	1,141,039
Accounts receivable				
Employees' contributions	1,449	-	1,449	1,205
Employers' contributions	1,449	-	1,449	1,205
Accrued investment income	2,531	52	2,583	2,806
Other receivables	15,734	312	16,046	321
	21,163	364	21,527	5,537
Due from General Revenue Fund (Note 5)	3,515	71	3,586	3,732
Cash	2,505	50	2,555	440
Total assets	1,259,609	25,350	1,284,959	1,150,748
LIABILITIES				
Accounts payable	1,731	36	1,767	1,281
Provision for annuity benefits (Statement 3, Note 9)	-	27,308	27,308	28,598
Total liabilities	1,731	27,344	29,075	29,879
NET ASSETS AVAILABLE FOR BENEFITS	1,257,878	(1,994)	1,255,884	1,120,869
Accrued pension benefits (Statement 3, Note 8)	1,204,766	-	1,204,766	1,185,760
SURPLUS (DEFICIT)	$ 53,112	$(1,994)	$ 51,118	$ (64,891)

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan

Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended December 31

(in thousands)

	2009			2008
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income				
Interest	$18,986	$407	$19,393	$25,109
Pooled funds	7,486	160	7,646	10,134
Dividends	11,924	255	12,179	12,014
Infrastructure	517	11	528	-
Mortgages	-	-	-	127
Real estate	2,346	50	2,396	2,993
	41,259	883	42,142	50,377
Change in fair value of investments	121,837	2,606	124,443	-
Contributions				
Employee contributions	22,922	-	22,922	20,688
Employer contributions	22,214	-	22,214	20,550
Reciprocal transfers in	641	-	641	1,272
Arrears contributions and interest	29	-	29	273
Inter-fund transfer	(268)	268	-	-
	45,538	268	45,806	42,783
Net decrease in provision for annuity benefits (Statement 3, Note 9)	-	1,290	1,290	2,342
Total increase in assets	208,634	5,047	213,681	95,502
DECREASE IN ASSETS				
Change in fair value of investments	-	-	-	275,303
Transfers and refunds (Note 7)	19,674	-	19,674	20,550
Benefit payments (Note 7)	6,628	-	6,628	10,453
Defined benefit payments	39,531	-	39,531	37,047
Annuities	-	3,856	3,856	4,003
Investment transaction costs	309	19	328	457
Administration costs (Note 11)	3,692	78	3,770	3,276
Investment and custodial fees (Note 11)	4,777	102	4,879	6,208
Total decrease in assets	74,611	4,055	78,666	357,297
INCREASE (DECREASE) IN NET ASSETS	134,023	992	135,015	(261,795)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,123,855	(2,986)	1,120,869	1,382,664
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$1,257,878	$(1,994)	$1,255,884	$1,120,869

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Accrued Pension Benefits and Provision for Annuity Benefits

Statement 3

Year Ended December 31

	(in thousands) 2009	2008
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$1,185,760	$1,223,958
Increase in accrued pension benefits		
Interest on accrued benefits	76,848	73,417
Benefits accrued	58,505	66,436
Transfer-in	641	1,272
Net experience loss	-	16,217
	135,994	157,342
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	65,832	68,050
Experience Gain	9,561	-
Change in assumptions	41,328	127,153
Transfer to provision for annuities	267	337
	116,988	195,540
ACCRUED PENSION BENEFITS, END OF YEAR (Note 8)	$1,204,766	$1,185,760

	2009	2008
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$28,598	$30,940
Increase in provision for annuity benefits		
Interest on annuity benefits	1,742	1,746
New annuities purchased	267	337
Change in assumptions	771	-
Net experience loss	-	421
	2,780	2,504
Decrease in provision for annuity benefits		
Annuities paid	3,856	4,003
Change in assumptions	-	843
Experience gain	214	-
	4,070	4,846
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 9)	$27,308	$ 28,598

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Notes to the Financial Statements

December 31, 2009

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the "Plan") is comprised of three components: defined benefit, money accumulation benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the "Act") provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its accrued benefit obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions. If the Plan has insufficient assets the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2007 valuations with the Superintendent which indicated the Plan is fully funded. The next valuation to be filed will be December 31, 2010.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Employee contributions are 5.4% of salary for general members and 7.3% for police officers and firefighters. Employee contributions are matched by the employer. There are some employee contributions that are not matched by employer, these contributions consist of transfers from other plans, and purchase of prior services.

B. Pensions

Employees receive a pension at age 65 for general members and age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

The liability associated with the Money Accumulation Component is included in accrued pension benefits and totals $13,310,341 (2008 - $12,437,103).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Income Taxes

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

b. Change in Accounting Policies

Effective for its fiscal year ended December 31, 2009, the Plan adopted the Canadian Institute of Chartered Accountants' new recommendation for disclosures relating to fair value measurements. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosure for fair value measurements recognized in the balance sheet. The Plan is required to classify and disclose fair value measurements using a three-tier hierarchy based on the lowest level input that is significant to that fair value measurement.

The adoption of this amendment did not have a significant impact on the Plan's financial statements.

Effective for its fiscal year ended December 31, 2009, the Plan adopted the Canadian Institute of Chartered Accountants' new recommendations for disclosures relating to liquidity risk. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Plan is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Plan manages its liquidity risk.

The adoption of this amendment did not have a significant impact on the Plan's financial statements.

Effective for its fiscal year ended December 31, 2009 the Plan adopted the CICA's Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC – 173"). EIC-173 requires an entity to take into account its own credit risk and the credit risk of counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments, and is required to be applied retrospectively without restatement. The adoption of this abstract did not have a material impact on the Plan's financial statements.

c. Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits.

Fair value of investments is determined as follows:

Short term investments are valued at cost which, together with accrued investment income, approximates fair value given the short term nature of these investments.

Bonds and equities are valued at year-end quoted bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on a valuation of the underlying investments performed by the infrastructure investment manager.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

Real estate is valued using market values from independent appraisals. The frequency of real estate appraisals occurs at least annually.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

d. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends and real estate operating income.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

e. Foreign Currency Translation

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits, accrued pension benefits and surplus are translated into Canadian dollars at year end rates of exchange. Gains and losses from translations are included in the net unrealized change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in market value of investments.

f. Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's net assets available for benefits.

g. Use of Estimates

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, the provision for annuity benefits and accrued pension benefits. Actual results could differ from these estimates.

h. Future Accounting Policy Changes

The Canadian Accounting Standards Board (AcSB) has decided that while the use of International Financial Reporting Standards (IFRS) will be required for Canadian publicly accountable enterprises for fiscal years beginning on or after January 1, 2011, that the primary standard applicable to pension plans will continue to be the Canadian Institute of Chartered Accountants (CICA) Handbook Section 4100 – *Pension Plans* instead of International Accounting Standards 26 – *Accounting and Reporting by Retirement Benefit Plans.* In July 2009, an exposure draft titled "Pension Plans was issued which proposes new standards for pension plans based on existing Section 4100, *Pension Plans*, with modifications including increased disclosures. The comment period for this exposure draft closed in October 2009, and the final standard is expected to be issued in April 2010. The proposed standards will be effective for annual financial statements for fiscal years beginning on or after January 1, 2011. Earlier application will be permitted. The plan is currently assessing the impact of these changes on the financial statements and related notes.

3. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short Term Investments

These investments are comprised of treasury bills, notes, commercial paper and a short-term investment fund. Short-term investments held as of December 31, 2009 had effective interest rates of 0.1% to1.9 % (2008 - 0.8% to 1.9%) and an average term to maturity of 107 days (2008 – 61 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 17.22% (2008 – 19.7%) of the total Plan's short-term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2009, the Plan held 5.4% (2008 – 6.1%) of its portfolio in BBB bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2009 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	-	$38,332	$ 4,158	$ -	$ 49,254	$91,744	0.80% - 6.75%	4.10%
5 to 10	-	9,295	12,339	8,053	25,447	55,134	0.48% - 6.02%	4.14%
Over 10	-	12,608	37,320	1,049	32,564	83,541	3.75% - 11.00%	5.27%
Market Value	-	$60,235	$53,817	$9,102	$107,265	$230,419		

2008 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$2,575	$39,873	$ 6,347	$ -	$45,372	$94,167	2.70% - 6.75%	4.44%
5 to 10	-	1,295	14,359	7,150	32,936	55,740	3.75% - 7.50%	5.10%
Over 10	-	403	43,240	1,056	27,616	72,315	4.45% - 11.0%	5.55%
Market Value	$2,575	$41,571	$63,946	$8,206	$105,924	$222,222		

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 46% of the Plan to be invested in foreign equities, including those held in pooled funds. As at December 31, 2009 the Plan held 7.72% (2008 – 8.47%)

of the Plan's total investments in foreign equities and 27.85% (2008 – 25%) of the Plan's total investments in pooled foreign equity funds. Foreign equities are comprised of 52.06% (2008 – 48.6%) US equities and 47.94% (2008 – 51.4%) Non-North American equities.

All foreign equities are reported in Canadian dollars.

The Plan's equities have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 3.25% (2008 – 3.4%).

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which is used to select and provide management support to the invested companies. The investments represent ownerships in entities that invest in infrastructure assets.

The Plan's infrastructure investments consist of the following:

	(in thousands) 2009	2008
SteelRiver	$ 20,914	$ 16,048
Global Infrastructure Partners	25,901	14,588
	$ 46,815	$ 30,636

The Plan's investment policy limits infrastructure investments to a maximum of 8% of Plan assets.

SteelRiver is a limited partnership formed to invest in North American infrastructure projects. The Plan is committed to a further investment in this limited partnership of $16.2 million in US funds over a period of up to 21 years.

Global Infrastructure Partners is a limited partnership formed to invest in worldwide infrastructure projects. The Plan is committed to a further investment in this limited partnership of $10.1 million in US funds over a period of 11 years.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

Market conditions
Purchase price
Estimate liquidation value
Third-party transactions in the private market
Present value of expected future cash flows
Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Pooled Funds

The Plan's investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
Pooled Fund	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
US Equity						
BlackRock CDN US Equity Index Hedged Non-Taxable Fund	14,654	11,938	10.66%	13.21%	$135,709	$88,567
Global Equity						
Greystone EAFE Plus Fund	12,774	13,051	6.73%	6.69%	97,273	84,895
Brandes Canada International Equity Unit Trust	10,120	9,843	15.70%	14.54%	117,127	111,397
Fixed Income Funds						
BlackRock Canada Universe Bond Index Class A Fund	7,368	9,296	3.90%	7.34%	167,124	199,888
					$517,233	$484,747

Pooled fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below.

Effective December 1, 2009, Barclays Global Investors was purchased by BlackRock Inc. and renamed to BlackRock Asset Management Canada Limited. BlackRock funds may contain equity index futures, to replicate the return of the S&P 500 Composite Index, and currency contracts used to hedge US dollar exposure back to the Canadian dollar.

Greystone is authorized to employ the use of derivatives to protect against losses from changes in exchange rates, interest rates and market indices. These derivatives may include such instruments as options, futures, and forward contracts.

Brandes may employ the use of foreign exchange contracts to hedge against changes in exchange rates and American depositary receipts to substitute for direct investment in the underlying security.

Real Estate

Investments in real estate consist of Canadian commercial property.

The Plan holds $59,768,850 (2008 - $15,156,169) in the Greystone Real Estate pooled fund. This represents 4.32% (2008 – 2.32%) of the total outstanding units. There is $19,131,000 (2008 - $71,069,000) of direct real estate holdings held by the Plan.

Real estate investments are valued by third parties. The following considerations are used to determine market value:

- New acquisitions will be carried at the original acquisition cost for the first twelve months and are then appraised in the next appraisal cycle
- During the appraisal cycle, properties are valued using market appraisals issued by qualified external real estate appraisers
- Real estate under development must be appraised within twelve months after the property is substantially complete
- Fair value of the real estate investments is determined on the last business day of each month using the most recent financial information of the underlying real estate properties.

The market appraisals involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

The financial statements for the pooled fund do not speak to the individual assumptions used in the appraisals.

Fair Value

The Plan has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
Bonds and debentures		$230,419		$230,419
Pooled income fund	$350,109	167,124		517,233
Short-term	17,880			17,880
Real estate funds			$ 78,900	78,900
Equities	366,044			366,044
Infrastructure			46,815	46,815
Derivatives				
Total	$734,033	$397,543	$125,715	$1,257,291

	Fair Value measurements using level 3 inputs			
	SteelRiver	Global Infrastructure Partners	Real Estate	Total
Balance at December 31, 2008	$16,048	$14,588	$86,225	$116,861
Net Purchases and sales	4,601	13,685	(750)	17,536
Net Transfer in (out)	-	-		-
Gains (Losses)				
Realized	-	-	10,167	10,167
Unrealized	265	(2,372)	(16,742)	(18,849)
Balance at December 31, 2009	$20,914	$25,901	$78,900	$125,715

4. Forward Contracts

The Plan has entered into foreign exchange forwards contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. Foreign exchange forwards contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a currency risk management program to manage the currency exposures inherent in the foreign equity pooled funds of the Plan, as well as provide protection of the Canadian value of the portfolio. Forward contracts are used to hedge the foreign currency exposure within the Greystone EAFE Plus Fund and the Brandes Canada International Equity Unit Trust. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

FOREIGN EXCHANGE FORWARD CONTRACTS

(in thousands of dollars)

		2009				2008			
# of Contracts	Currency	Market Value	Notional Value*	Gain (Loss)	Net Exposure	Market Value	Notional Value*	Gain (Loss)	Net Exposure
-	Canadian Dollar	110,423	110,423	-	-	79,064	79,064	-	-
6	European Euro	(54,451)	(55,106)	655	41.8%	(31,769)	(28,696)	(3,073)	53.1%
1	Hong Kong Dollar	(3,274)	(3,217)	(57)	53.5%	(1,927)	(1,736)	(191)	50.1%
12	Japanese Yen	(23,040)	(23,148)	108	46.2%	(24,790)	(20,658)	(4,132)	52.4%
7	Pound Sterling	(25,349)	(24,075)	(1,274)	43.3%	(21,317)	(23,277)	1,960	44.3%
6	Swiss Franc	(4,928)	(4,877)	(51)	51.5%	(5,387)	(4,697)	(690)	47.9%
		(619)	-	(619)		(6,126)	-	(6,126)	

Net exposure of the Greystone EAFE Plus Fund and Brandes Canada International Equity Trust Unit is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

The Active Foreign Currency Manager has two objectives within the Plan. The first is to hedge against the foreign equity exposures that exist in the underlying portfolio of Non-North American equity mandates. The Active Foreign Currency Manager's benchmark hedge ratio is 50% of the underlying portfolio, although the manager has the discretion to apply a hedge ratio between 0-100% of the underlying portfolio. Hedging is limited to those foreign currency exposures that are included in the MCSI EAFE Index and excludes any Canadian Dollar exposures.

The second objective of the Active Foreign Currency Manager is to add value to the Plan by generating returns from relative movements between foreign currencies. This second objective is independent of the first and is not restricted to those currencies that exist in the underlying portfolio. The following summarizes the Plan's use of these foreign currency forward exchange contracts:

FOREIGN CURRENCY FORWARD CONTRACTS

(in thousands of dollars)

	2009		2008	
	Market Value	Notional Value*	Market Value	Notional Value*
European Euro	$ (42)	$ (42)	$ 3,373	$ 3,373
United States Dollar	(90)	42	(3,272)	(3,373)
Net gain	$ (132)	-	$ 101	$ -
European Euro	$ 460	$ 460	$ 2,835	$ 2,835
Japen Yen	(456)	(460)	(2,115)	(2,835)
Net gain / (loss)	$ 4		$ 720	$ –
Australian Dollar	-		$ 663	$ (663)
United States Dollar	-		(658)	663
Net gain / (loss)	-		$ 5	$ –
United States Dollar	-		$ 396	$ (396)
Japen Yen	-		90	396
Net gain / (loss)	-		$ 486	$ –

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the financial statements.

Based on the current rate of exchange as of December 31, 2009, the forward contracts under both Plan objectives are in a net loss position of $745,650 $ (2008 – loss of $4,813,704). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2009 have a maturity date of April 22, 2010. This amount is included in short term investments on the Statement of Net Assets Available for Benefits.

5. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2009 was 0.5% (2008 - 2.6%).

6. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2009 the change in market value not yet allocated to members is $0 (2008 – loss of $34,231,186). Effective with the August 2009 interest rate, the MEPP Commission has approved the removal of the smoothing for interest rate calculation.
Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2009 an interest rate of 10.09% (2008 – -16.23%) was calculated and applied to the Money Accumulation Component and the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

7. Transfers and Refunds

(in thousands)	2009	2008
Transfers to other retirement plans	$ 717	$ 1,304
Transfer to other retirement vehicles	14,700	14,189
Withdrawals with interest	4,257	5,057
	$19,674	$20,550

Benefit Payments

(in thousands)	2009	2008
Lump sum payments to estates	$ 2,140	$ 4,361
Payments in lieu of annuities	4,488	6,092
	$ 6,628	$10,453

8. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation, inflation, and future pension indexing. An actuarial valuation was performed as at December 31, 2008 by Eckler Ltd. and they extrapolated the results of that valuation to December 31, 2009.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2009	2008
Interest rate	6.0%	6.5%
Salary escalation rate first 5 years	4.5%	4.5%
Salary escalation thereafter	3.5%	3.5%
Inflation	2.5%	2.5%
Indexation of pensions	none assumed	2% for pre-1999 benefits, none for post-1998 benefits
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

Net experience gains and losses result from differences between actual and expected employee terminations, retirements, salary increases and deaths.

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 4.5% for the first 5 years, 3.5% thereafter, interest rate 6.0% and no indexing on post-1998 benefits. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability				
	Salary		Interest Rate		Pension Indexing (post 1998)
Assumptions	3.5% (5) 2.5% (+)	5.5% (5) 4.5% (+)	5.0%	7.0%	1.00%
(Decrease) Increase	(3.1%)	3.7%	14.9%	(11.4%)	(4.8%)

9. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation of annuities as at December 31, 2008 and extrapolated the results of that valuation to December 31, 2009.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2009	2008
Interest rate	6.0%	6.5%
Indexation of pensions	2.5%	2.5%
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	1.5%	3.5%
(Decrease) Increase	6.4%	(5.7%)	(0.3%)	0.3%

In the future, increases on non-indexed annuities will be granted to the extent that investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of annuities and the net affect on the liability would be zero. Excess interest increases for non-indexed annuities in any year will not be greater then the increase in the Consumer Price Index for the previous year.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $16.1 million, in the next 10 years $27.3 million and in the next 30 years $40.4 million.

10. Financial Risk Management

The nature of the Plan's operations result in a statement of net assets available for benefits, accrued pension benefits, and surplus that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investments managers for the asset mix of the portfolio regarding quality and quantity of fixed term investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Commission's policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage. The Commission reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Commission also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2009 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $'s) 2009 Carrying value	2008 Carrying value
Cash	$2,555	$ 440
Accounts receivable	21,635	5,537
Fixed income investments[1]	415,424	433,717
Due from the General Revenue Fund	3,586	3,732

[1] Includes short-term investments, bonds and the fixed income pooled fund.

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and accrued receivable for committed sale of an investment. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Sale of an investment will be received the following month.

Credit risk within investments is primarily related to short-term investments, bonds, and the fixed income pooled fund. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds are as follows:

	2009		2008	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 88,943	38.60	$ 80,087	36.04
AA	71,445	31.00	71,457	32.16
A	57,504	24.96	57,160	25.72
BBB	12,527	5.44	13,518	6.08
Total	230,419	100.0	$ 222,222	100.0

Within bond investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 3.80% of the market value of the combined bond and short term investment portfolios. No one holding of a province is over 5.62% of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Commission and by settling contracts on a semi-annual basis. The currency manager must receive approval from the Commission prior to engaging a new counterparty.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and the fixed income pooled fund. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $25.8 million at December 31, 2009; representing 6.4% of the $398 million fair value of fixed income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $25.8 million at December 31, 2009; representing 6.4% of the $398 million fair value of fixed income investments.

Foreign exchange

The Plan is subject to changes in the U.S./Canadian dollar exchange rate units U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australia and Far East) currencies through its investment in global equity pooled funds. Exposure to both U.S. equities and non-North American equities, including pooled equity fund, is limited to a maximum 46% each of the market value of the total investment portfolio. At December 31, 2009, the Plan's exposure to U.S. equities was 18.5% (2008 – 16.2%) and its exposure to non-north American equities was 17.1% (2008 – 17.2%).

At December 31, 2009, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $14.1 million decrease in the increase in net assets available for benefits and surplus. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $10.5 million increase in the increase in net assets available for benefits and surplus.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services are not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as in Note 4. As at December 31, 2009, the Plan's exposure net of derivatives is $247 million. A 10% change in the exchange rate would equate to a net change of $24.6 million.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 57.4% (2008 – 51.6%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10% of the market value of the Plan. As well, no one holding represents more than 30% of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and surplus based on changes in the Plan's benchmark indices December 31, 2009:

	(Change in thousands of $) 10% increase	10% decrease
S&P/TSX Composite Index	$ 26,867	$ (26,867)
S&P 500 Index	23,280	(23,280)
MSCI EAFE Index	21,581	(21,581)

Securities collateral

At December 31, 2009, no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2009, the total amount of collateral pledged to the Plan amounted to $66.9 million (2008 – $87.0 million). Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Real Estate and Infrastructure Investment Risk

Risk in the real estate portfolio and infrastructure investments are managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

11. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands of dollars)

	2009 Budget (unaudited)	2009 Actual	2008 Budget (unaudited)	2008 Actual
Administration costs	$4,294	3,770	$3,594	$3,276
Custodial fees	202	167	133	210
Investment fees	4,101	4,712	4,981	5,998
	$8,597	8,649	$8,708	$9,484

12. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $6,303,376 (2008 - $6,749,701) in Province of Saskatchewan Bonds. Investment gain on these bonds, including the current period change in the market value of investments, was $333,216 (2008 –$236,315).

The Plan has an accounts payable balance as at December 31, 2009 of $287,456 (2008 – $444,667) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

13. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2009	Rolling Four Year Average Annual Return
Plan's actual rate of return before deducting investment and administration expenses	14.5%	3.2%
Benchmark	15.5%	2.7%

The Plan's benchmark for its investment portfolio has been determined using the actual returns of the market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 Hedged U.S. Stock Index, Russell 2500 Hedged index, Morgan Stanley, Europe, Australasia and Far East Index, DEX Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

14. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed

in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, has been estimated by actuarial valuation; information about these liabilities is provided in Notes 8 and 9.

15. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

16. Subsequent Events

On January 16, 2009 the Commission approved a recommendation to the Minister of Finance that *The Municipal Employees' Pension Regulations* be amended to increase:

The general members contribution rate to 6.4 per cent from 5.4 per cent effective January 1, 2010; and

The designated police officer and firefighter member contribution rate be increase to 8.75 per cent from 7.3 per cent effective January 1, 2010.

17. Comparative Figures

The prior year figures were reported on by another accountant.

Appendix 'A'

S&P/TSX Composite

Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 per cent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a fl oat market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10

S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The fl oat capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australasia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This index aims to capture 85% of the free fl oat adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

DEX UBI

DEX (formerly Scotia Capital) Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 1,000 marketable Canadian bonds with an average term of 10 years and an average duration of 6.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI

The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500

The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.